

**BEFORE THE POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001**

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Periodic Reporting (Proposal Two)

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Docket No. RM2021-4

**SURREPLY COMMENTS OF PITNEY BOWES INC.**  
(May 28, 2021)

Pitney Bowes Inc. (Pitney Bowes) respectfully submits these surreply comments in response to the reply comments filed by the United States Postal Service on May 25, 2015 on Proposal Two.<sup>1</sup>

Proposal Two encompasses two distinct elements: (1) a proposal to reclassify allied and support cost pools for the Cost and Revenue Analysis (CRA) adjustment factor, and (2) a proposal to remove the costs associated with Post Office (P.O.) Box activities from the First-Class Mail Presort Letter cost avoidance model and the calculations developing the CRA adjustment factors used to reconcile modeled cost to CRA costs.

As to the first element, the initial comments of Pitney Bowes and others pointed out that the Postal Service's proposal to reclassify select cost pools was unsupported and incomplete and that the Postal Service had failed to provide any basis for the Commission to revisit prior determinations rejecting similar proposals.<sup>2</sup> The Postal Service's reply comments argue that in criticizing the Postal Service's failure to meet its evidentiary burden, commenters would impose "too high a bar" requiring "extraordinary evidence" to justify a change.<sup>3</sup> Pitney Bowes respectfully disagrees.

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<sup>1</sup> See Reply Comments of the United States Postal Service Regarding Proposal Two (May 25, 2021)(Postal Service Reply Comments).

<sup>2</sup> See Comments of Pitney Bowes (May 14, 2021) at 11-32 (PB Comments); Comments of the National Postal Policy Council, the Major Mailers Association, the National Association of Presort Mailers, and the Association for Mail Electronic Enhancement (May 14, 2021) at 2-7 (NPPC et al Comments); Comments of the Association of Postal Commerce (May 14, 2021) at 1-2 (PostCom Comments); Comments of the Public Representative (May 14, 2021) at 3-5 (PR Comments).

<sup>3</sup> Postal Service Reply Comments at 4, 6.

The initial petition implicitly acknowledged that some quantitative analysis was required to support the proposed cost pool reclassifications. Having failed to directly model the allied and support cost pools as directed by the Commission, the Postal Service presented an “alternative” analysis based on limited Intelligent Mail barcode (IMb) scan data from select In-Office Cost System (IOCS) tallies.<sup>4</sup> Pitney Bowes and others explained in their initial comments that the IOCS analysis was incomplete and unreliable and that its results, even if taken at face value, did not support the adoption of Proposal Two.<sup>5</sup> The Postal Service’s reply comments do not even attempt to rehabilitate those arguments. Rather, the Postal Service’s reply comments abandon any quantitative analysis and fall back to a burden of proof analysis, arguing that the proposed reclassification proposals are justified based on the Postal Service’s narrative description of the “nature of the work activities” performed within select cost pools.<sup>6</sup>

Again, Pitney Bowes respectfully disagrees. It is not unreasonable to expect the Postal Service to model the allied and support costs that the Postal Service itself said it *should* model more than 25 years ago, and that the Commission said it *must* model over 10 years ago to justify precisely the type of cost pool reclassifications at issue in Proposal Two.<sup>7</sup> Because the Postal Service concedes that it failed to meet the burden of proof the Commission has repeatedly stated is required to justify such a proposal, and is otherwise unsupported by any real analysis, Proposal Two must be rejected.

The Postal Service gains nothing by arguing in its reply comments that the current piggyback methodology is based exclusively on a thought experiment.<sup>8</sup> The Commission has previously held that the available CRA cost data, established methods for cost attribution and distribution, and operational

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<sup>4</sup> See Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Two) (Mar. 24, 2021).

<sup>5</sup> See PB Comments at 12-17; NPPC et al Comments at 6-7; PostCom Comments at 2.

<sup>6</sup> Postal Service Reply Comments at 5.

<sup>7</sup> See Docket No. MC95-1, Direct Testimony of Marc A. Smith on behalf of the United States Postal Service (USPS-T-10)(Mar. 24, 1995); Docket No. RM2010-13, Order No. 1320, Order Resolving Technical Issues Concerning the Calculation of Workshare Discounts (Apr. 20, 2012) at 40.

<sup>8</sup> Postal Service Reply Comments at 6.

analysis all confirm that the Commission's established methodology is correct; allied and support mail processing activities and costs vary indirectly by presort level because these activities and costs support direct operations (e.g., sorting) whose costs vary by presort level.<sup>9</sup>

The extended discussion in the Postal Service's reply comments regarding the distinction between presort and dropship cost avoidances also fails. The Postal Service argues that the initial comments and the Commission's prior decisions improperly "blur" and "conflate" the cause of variations by rate category in allied and support costs.<sup>10</sup> Because there are no dropship discounts for First-Class Mail Letters, there is nothing to conflate. Unlike Marketing Mail, for example, where there would be an issue as to which allied labor and support cost pools are influenced by different types of workshare, no such distinctions apply to First-Class Mail. The Postal Service's reply comments also ignore the Commission's prior findings that density affects both entry point and presort level, and that density is sufficiently related to presort level that density-related cost avoidances are appropriately included in presort cost avoidances.<sup>11</sup>

If anything, the Postal Service's reply comments underscore the merit of exploring the use of separate CRA adjustment factors for incoming secondary (IS) and non-IS costs within First-Class Mail that Pitney Bowes has previously proposed.<sup>12</sup> Relevant for present purposes, however, the use of deaveraged CRA adjustment factors would likely demonstrate, as it did in Pitney Bowes' prior analyses, that the First-Class Mail cost model understates the costs avoided by presortation; thus, the result would be an increase in modeled costs avoided, the opposite of the effect of Proposal Two.

The Postal Service's reply comments also reinforce the conclusion that the removal of the costs associated with the P.O. Box activities from the First-Class Mail cost avoidance model should be rejected as unsupported by reliable evidence.

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<sup>9</sup> See e.g., Order No. 1320, at 40-42.

<sup>10</sup> Postal Service Reply comments at 7, 9.

<sup>11</sup> See Order No. 1320, at 39.

<sup>12</sup> See, e.g., Dkt. No. RM2010-13, Reply Comments of Pitney Bowes Inc. (Apr. 4, 2011) at 16-20.

The reply comments concede that the Postal Service's own cost avoidance model shows that P.O. Box costs vary by presort level.<sup>13</sup> This admission is consistent with the Postal Service's response to a Chairman's information request acknowledging, "[t]hese differences [in DPS percentages] also affect cost incurred in (modeled) distribution activities at delivery units."<sup>14</sup> This alone is disqualifying. It should be axiomatic that avoidable costs may not be excluded from workshare cost avoidance models.

The concession also undermines the Postal Service's argument that Commission precedent supports removal of the P.O. Box costs. As pointed out in the initial comments, the Postal Service's reliance on the Commission's prior commentary from Docket No. RM2012-8 on flats P.O. Box costs is inapposite because of the differences in how letters and flats are processed.<sup>15</sup> The relevant precedent is the Commission's decision in Docket No. R2006-1 where the Commission rejected the Postal Service's proposal to exclude delivery costs from the cost avoidance model on the basis that delivery costs varied by presort level due to presort-related differences in DPS percentages. Because P.O. Box costs likewise vary by presort level, the Commission should reject the proposal to remove P.O. Box costs from the cost avoidance model.

As above, it is not unreasonable for the Commission to require that proposed changes to the First-Class Mail cost avoidance model be supported by quantitative analysis. The Postal Service disparages as "implausible" P.O. Box productivities based on a study it presented in Docket No. MC95-1, but the Postal Service has not performed a more recent study to update the productivities and fails to provide any other quantitative evidence contradicting the clear finding of the MC95-1 study, which gives rise to the presort-related P.O. Box cost avoidance, that the P.O. Box productivity for letters that have been DPS'd is much higher than that for non-DPS letters.<sup>16</sup>

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<sup>13</sup> See Postal Service Reply Comments at 11.

<sup>14</sup> Postal Service Responses to ChIR No. 5.

<sup>15</sup> See PB Comments at 33; NPPC et al Comment at 8.

<sup>16</sup> See Postal Service Reply Comments at 11; Responses to ChIR No. 1, Question 4(d).

The Postal Service's Table 1 calculation and related discussion should be given no weight because it is based upon the presumption that the difference between the modeled and CRA P.O. Box cost is due to a "modeling error."<sup>17</sup> That presumption, however, is unverifiable without additional analysis. An alternate explanation is that the CRA cost pool is capturing costs other than P.O. Box costs (e.g., unrelated manual sorting activities). If so, those costs (like most mail processing costs) are almost certainly avoidable through presort; thus, removing P.O. Box costs from the cost avoidance model and proportional CRA adjustment (as proposed by the Postal Service) would substantially understate presort cost avoidances. Again, the Postal Service could have performed an updated study to resolve this issue, but chose not to do so.

For the reasons stated in the initial comments and above, the Postal Service has not met its burden of proof that the reclassification of the allied and support cost pools or the proposed exclusion of P.O. Box sorting costs would improve the Commission's established methodology. Accordingly, Pitney Bowes respectfully urges the Commission to reject Proposal Two.

Respectfully submitted:

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<sup>17</sup> Postal Service Reply Comments at 12.